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French Financial Policy

by

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with the aid of the Research Staff of the Foreign Policy Association

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INTRODUCTION

THE unsympathetic reception generally accorded in the United States to the French government's recent request for a complete re-examination of the war debts, and suspension in the meantime of the semi-annual instalment of $19,261,432 due on December 15, 1932, may be attributed for the most part to the popular belief that the large gold reserves which have accumulated in France make it possible for that country to pay in full. France's abundant supply of monetary gold would in fact appear to enable the French government, for the next few years at least, to transfer war-debt payments to the United States without impairing the stability of the franc or the country's credit structure. Ultimately, however, France would be obliged to discharge its debt in goods and services rather than in gold, since the $6,500,000,000 or more due the United States over a period of years extending until 1988 is about twice the total value of the monetary gold in France. Moreover, France's capacity to pay depends on its ability to raise by taxes the amounts required to meet the debt annuities, which by 1942 will have reached the maximum of $125,000,000. The French budget for 1933, which originally showed an estimated deficit of $471,000,000, has now with great difficulty been balanced, on paper, by the government. Economies amounting to about $207,800,000 and borrowing to the extent of $141,900,000 are relied upon to cover most of the deficit. Only minor tax increases are proposed, for already about 30 per cent of the national income is said to be absorbed by taxation, as compared with somewhat more than 10 per cent in the United States.[1] Moreover, industrial production in France has fallen off 23.6 per cent since 1930, and the number of unemployed is estimated at between one and two million. Since reparation was suspended by the Hoover moratorium and later virtually cancelled by the Lausanne Conference, the French feel entitled to a reconsideration of the war debts. In this connection

1. Cf. Sisley Huddleston, "Taxpayers in France Organize," *Christian Science Monitor*, November 22, 1932. The proportion of 30 per cent for France is said to compare with 27 per cent for Italy, over 22 per cent for England, and 20 per cent for Germany.

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they recall that, in ratifying the Mellon-Berenger debt-funding agreement of 1926, both the French Senate and the Chamber of Deputies adopted resolutions expressly declaring that the ability of France to meet payments on the inter-Allied debts depended on the continued payment of reparation by Germany.[1a]

During the past few years the world has witnessed a striking demonstration of France's financial and economic power. This period has been marked by a steady increase in the volume of gold which has flowed into the vaults of the Bank of France. Following the legal stabilization of the franc on June 26, 1928, France's gold reserves rose from 1,145 million dollars to the extraordinary total of 3,289 million on November 4, 1932—representing almost 29 per cent of the world's entire gold reserves. Until recently the United States had been primarily criticized for absorbing and "sterilizing" a large part of the world's monetary gold; in the year ending in August 1932, however, American gold reserves were reduced from a peak of 4,632 million dollars to 3,637 million.[2] During this period the United States exported to France no less than 821.9 million dollars in gold.[2a] French gold reserves now almost equal those of the United States, although the volume of commerce transacted in France falls far below that transacted in this country. During the past few months gold coverage for the note circulation—the chief form of credit in France—has for the most part exceeded 100 per cent. While the French have been inclined to regard the possession of a large gold reserve as an essential guarantee of economic security and independence, the country's present gold holdings seem to be out of all proportion to domestic needs.

The acquisition of great financial power brings corresponding responsibilities. France's cooperation has become increasingly necessary for the success of projects for international financial reconstruction. The French government itself has recognized that "a movement of capital from countries possessing lendable funds to markets where capital is scarce is an essential primary condition" of economic reconstruction.[3] France is today one of the few countries able to export a large amount of capital. In the past France has been accused of extending loans to strengthen the political control which it has sought to exercise in order to achieve security. The question now arises whether France is prepared to cooperate in the promotion of broad schemes of political and financial reconstruction which will redound to the benefit of Europe and the world at large. France thus faces the problem of reconciling its own desire for political and economic security with world interests.

The commercial policy which France has hitherto pursued must also be considered in this connection. This policy, traditionally protectionist, has been designed to maintain a balance between agriculture and industry, and to give France a large degree of economic self-sufficiency. With the inception of the world crisis in 1929, France increased its protective measures, particularly by resorting extensively to import quotas. At present, however, the French government is reconsidering its entire trade policy, and its decision in this matter will be of great importance to other countries. Increased protectionism might redress France's present unfavorable trade balance and thus obstruct a possible redistribution of some of its large gold reserves. The future trend of French commercial policy will determine the outcome of the negotiations recently initiated for the conclusion of a Franco-American commercial treaty, and will have a decisive influence on the question of trade revival in Europe. By the exercise of its great political and financial power, France may practically determine the fate of any project for economic cooperation. This was strikingly demonstrated in 1931 when France vetoed the formation of an Austro-German customs union. Moreover, as the second leading foreign trade nation on the Continent,[4] France is in a position to dominate the future of European trade.

Considerations of domestic economy may hasten a change in French commercial policy. The protective measures which France has adopted since 1929 appear to have been partially successful in preventing a great deflation of domestic prices. While aggregate wholesale prices, as indicated by the index for July of this year, have declined 31.4 per cent from the average level in 1929, it may

1a. Cf. *Annales du Sénat, Débats parlementaires, Session ordinaire de 1929, séance du 26 juillet, 1929*, p. 1048-49; also *Annales de la Chambre des Députés, Session ordinaire de 1929, 2e séance du 20 juillet, 1929*, p. 933-34. The resolution of the Chamber referring to the British and American debt-funding agreements reads as follows:

"The Chamber . . .

". . . Considering that France, if it is not to disturb its national economy, will only be able to find the means necessary for the execution of the agreements of April 29 and July 12, 1926, provided Germany regularly discharges its obligations;

"Declares that the burdens imposed upon the country by the said agreements must be covered exclusively by the sums which Germany will have to pay France over and above those destined for reparation."

(For text of the resolutions of the Senate and the Chamber of Deputies, cf. Appendix, p. 242.)

2. Cf. *Federal Reserve Bulletin* (U. S. Government Printing Office), September 1932, p. 585.

2a. *Ibid.*, p. 586.

3. League of Nations, "Memorandum of the French Government to the Commission of Enquiry for European Union," contained in the *Minutes of the Third Session of the Commission, May 15-21, 1931*, C.395.M.158.1931.VII., p. 79-88.

4. Only Germany exceeds France in the value of its foreign trade. In 1930 the total for Germany was 5,343 million dollars, that for France, 3,731 million. Cf. League of Nations, *Review of World Trade, 1930* (Geneva, 1931).

be noted that prices of imported products have fallen 51.8 per cent as compared with a decrease of only 26.3 per cent in the prices for domestic goods, and that the cost of living index for Paris has dropped only 3.8 per cent from the average for 1929.

Considerable maladjustment, however, has appeared between wholesale prices for agricultural and food products on the one hand and those of industrial products on the other: the former have declined only 14 per cent from the level in 1929, and the latter more than 44 per cent.[5] This may be due to the fact that agriculture has benefited from protectionism more than industry, whose products constitute more than 60 per cent of French exports. Moreover, the increased restriction of imports since 1929 has been accompanied by an even greater decline in exports, with the result that the trade balance last year revealed a record deficit of 11,778 million francs. In the first nine months of 1932 the amount of the deficit declined to 7,607 million, as compared with 9,968 million for the corresponding period of last year, but the proportion of exports to imports reached a new low of 66 per cent—a drop of 20 per cent from 1929.[6]

The amount of the trade deficit can probably be cut further, but only by effecting a further curtailment of both exports and imports. The advisability of protecting the French producer against price deflation in the future has consequently been questioned. In an appeal for relief addressed to the government last July, the French export industries declared that the relative stability of the French price level had impaired their ability to compete on world markets, and stressed the dependence of French economic life on foreign trade.[7] The present government has recognized the necessity of reviving exports and lowering the cost of living.[8] This may prove difficult to achieve without at least partial abandonment of existing import restrictions.

French commercial policy indirectly affects the difficult problem of balancing the country's budget which, despite the efforts of the government, is threatened with a deficit of about 12 billion francs for 1933. Because of the high cost of living, attributed at least in part to the drastic reduction of imports, increased taxation is made difficult. Largely for the same reason the government's plan to economize by reducing salaries and pensions of government employees has met with strong opposition.[9] A more liberal trade policy, therefore, might conceivably facilitate the solution of France's serious fiscal problems.

FRANCE AND THE GOLD PROBLEM

THE BALANCE OF PAYMENTS

France's astonishing capacity to absorb a large part of the world's monetary gold may be ascribed primarily to the fact that it enjoyed until 1931 a favorable balance in its exchange of goods and services with other countries. The table on page 235 shows that during the period 1927-1930[10] French income from shipping, transit and insurance, reparation, and foreign investments substantially exceeded the payments which France had to make for goods and services.

The balance was particularly favorable from 1924 to 1928 owing to depreciation of the exchange value of the franc and its subsequent stabilization at only one-fifth of its former parity. Since French prices did not rise during these years as much as the franc had fallen, foreign countries found France a profitable market in which to buy.[11] As a result, France—a country which normally has a considerable deficit in its balance of trade—actually enjoyed a small export surplus in 1924 and 1927, while in 1925, 1926, and 1928 there was only a small excess of imports.[12] This advantage has gradually disappeared, however, so that for the period 1928-1931 the trade deficit again bulks large on the debit side of the balance of payments.

5. All price indices are taken from the *Bulletins de la Statistique Générale de la France et du Service d'Observations des Prix.* The general price index cited includes 126 articles, that of imported products 16, domestic products 29, agricultural and food products 39, and that of industrial products 87.

6. These figures exclude the trade of French overseas possessions and protectorates. For this reason the amount of the 1931 deficit given here does not tally with that in the table on p. 235.

7. Cf. *New York Times,* July 17, 1932. In 1929 French exports per capita amounted to $47.70, as compared with $50 for Germany and $42 for the United States. Total foreign trade per capita was $103, $120, and $77 respectively.

8. Cf. speech of M. Julien Durand, Minister for Commerce and Industry, before the Chamber of Commerce of St. Nazaire, July 31, 1932. *L'Ere Nouvelle,* August 1, 1932.

9. Cf. Marcel Déat, "De la deflation à la concentration," *L'Europe Nouvelle,* October 15, 1932, p. 224-6; also *New York Times,* November 6, 1932.

10. Accurate figures for the years prior to 1927 are not obtainable due to the fluctuation of the value of the franc. M. Meynial estimates the favorable balance for 1924, 1925 and 1926 at roughly 9, 10 and 11 billion francs respectively.

11. To state the situation more accurately, the French franc had declined in terms of other currencies more than French prices had risen in terms of price levels in other countries. For a detailed discussion of the effect of the French inflation on the export trade, cf. W. F. Ogburn and Wm. Jaffe, *The Economic Development of Post-War France—a Survey of Production,* p. 519-537, Vol. III of *Social and Economic Studies of Post-War France,* edited by C. J. H. Hayes (New York, Columbia University Press, 1929).

12. The following table shows the proportion of exports to imports in value. Trade of the French overseas possessions, with the exception of Indo-China, is included.

1913—79.56%

1923— 89.44%	1926— 97.23%
1924—101.59%	1927—101.39%
1925— 99.68%	1928— 92.73%

Cf. Maurice Olivier, "Le Commerce Exterieur," *Revue d'Economie Politique,* May-June 1932, p. 1006.

PAYMENTS TO AND BY FRANCE ON ACCOUNT OF GOODS AND SERVICES[1]
(in millions of francs)
Credits (+) or Debits (—)

	1927	1928	1929	1930	1931
I. Goods					
Foreign Trade[2]	+ 108	— 3,299	—11,107	—12,761	—13,262
II. Services					
Shipping income ..	+3,350	+ 3,150	+ 3,100	+ 2,700	+ 2,400
Income from tourists	+6,000	+ 7,500	+ 8,500	+ 8,500	+ 6,000
Remittances by foreign workers in France	—2,500	— 2,200	— 2,500	— 2,500	— 1,200
Net income from foreign investments[3]	+3,000	+ 3,950	+ 5,600	+ 5,100	+ 4,000
Reparations[4]	+4,200	+ 5,478	+ 6,700	+ 7,084	+ 2,600
War debt payments	—1,418	— 1,854	— 2,107	— 2,784	— 1,280
Other government payments (interest and principal on other loans, rentes, etc.)	—3,418[5]	— 1,074	— 730	— 2,533[6]	— 650
Reimbursements of commercial debts	....	....	....	....	— 770
Balance	+9,772	+12,151	+ 7,956	+ 3,206	— 2,462

1. Based on the unofficial compilations by M. Pierre Meynial, appearing annually in the *Revue d'Economie Politique.* Figures for the first four years, as revised and adjusted by the Economic Intelligence Service of the League of Nations, have been taken from the League publication, *Balance of Payments, 1930* (Geneva, 1932), p. 84-5. Those for the last year are from the *Revue d'Economie Politique, May-June 1932, p. 578-92.*
2. Trade figures include the trade of French overseas territories, with the exception of Indo-China.
3. Payments on investments by foreigners in France have been deducted.
4. Occupation costs have been deducted.
5. Includes reimbursement of government debt of 4,092 million francs to Bank of England. Since the latter in return released a gold deposit of 2,232 million francs which it had held as security for the loan, this sum has been deducted.
6. Includes reimbursement of 2,000 million francs (Kreuger loan) and payment of 107 million francs on 7 per cent New York loan.

It is significant that the surplus which accrued to France from its exchange of goods and services with other countries has declined steadily since 1928, and actually turned into a deficit in 1931. For the next few years there will probably be a deficit as large or possibly considerably larger. On the credit side revenue from the tourist trade, shipping, and foreign investments has fallen off, while receipts from reparation decreased considerably in 1931 due to the Hoover moratorium. To be sure, most of the items on the debit side have also decreased, but this decline is offset to a large extent by a record deficit in French foreign trade. As far as the future is concerned, it seems probable that France will be permanently deprived of the net income heretofore derived from reparation after the deduction of payments on war debts. Unless a revival of French foreign lending takes place, the income from foreign investments is also likely to fall off in the next few years, since a large amount of French investments abroad have been liquidated. Present signs also seem to point to the continuance of a highly unfavorable balance of trade. Despite all the restrictive measures adopted by the government, there was still a substantial excess of imports over exports for the first nine months of this year.[13] There is, in addition, a possibility that France's large gold supply may lead in the future to an inflation of credit, and thus to a relative rise in French prices.[14] Such a development would stimulate imports and react unfavorably on exports.

The Restrictions of Long-Term Foreign Investments

The fact that France until recently had a very favorable balance in its exchange of goods and services is not in itself sufficient to account for the large gold influx into France. If there had been a corresponding net increase in exports of capital, the major part of the gold imports would have been obviated. Considerable exports of French cap-

13. Cf. p. 234.

14. Whether the massive gold imports have already had an influence on the French price-level is disputed. M. Meynial maintains that they have paralyzed the movement toward a downward adjustment of prices. Cf. Pierre Meynial "La Balance des Comptes," *Revue d'Economie Politique,* May-June 1932, p. 578 and 586. The accuracy of this view has been questioned by another French authority, cf. "Le marche monétaire et les changes," *ibid.,* p. 637. It is true that the note circulation in France has increased somewhat more than 12 billion francs since the end of 1929, but most or all of this may be ascribed to the hoarding of currency, as is proved by the fact that during 1931 alone the amount of outstanding notes of 1,000-franc and 500-franc denominations increased by more than 8 billion francs. Only when a substantial revival of business takes place is it at all likely that the extension of credit may become so free as to produce a relative rise in prices. The comparative stability of French economic life will lead many to minimize the possibilty that the gold supply will ultimately affect the price-level to any extent.

ital actually took place during the period 1924-1929, but only a small portion of this was in the form of stable long-term investments. Since the war the amount of foreign securities floated in France has been relatively insignificant. The total issues of foreign securities in France from 1926 to 1931, the period of greatest activity, did not exceed the value of 8 billion francs, or about 310 million dollars.[15] To be sure, some direct long-term investment has also taken place, the amount of which is not known, but is probably not considerable.

The small volume of long-term foreign lending by France since the war has been ascribed to several factors. Conditions for the flotation of foreign loans in France were long unfavorable: the franc was not legally stabilized until June 1928, and the government maintained its discriminatory taxation on investments in foreign securities until 1930.[16] The French people, moreover, had sustained such heavy losses on pre-war Russian bonds that they were reluctant to purchase new foreign securities. Long-term investments were confined largely to countries with which France had close political ties, particularly when the loans incidental to the reparation settlements and the League of Nations' loans to Bulgaria and Austria are excepted from consideration.[17] The list of loans obtained by foreign governments in France since the war may be cited in this connection:

Loans to foreign Governments or guaranteed by foreign Governments issued in France since January 1, 1919*

1923	Austria—Stabilization Loan 6½%	170,000,000 frs.
1923	Belgium—6½% Foreign Loan	400,000,000 frs.
1924	Germany—Dawes Loan 7%	£3,000,000
1925	Bulgaria—6½% Loan	44,360,000 frs.
1927	Poland—Stabilization Loan 7%	$2,000,000
1928	Rumania—4% Rentes	269,353,000 frs.
1929	Rumania—7% Loan of the Caisse Autonome des Monopoles	561,638,000 frs.
1930	Chile—6% Loan	35,000,000 Swiss frs.
1930	Germany—5½% Young Plan Loan	2,515,000,000 frs.
1930	Poland—7% Loan by Banque de l'Economie Nationale de Varsovie	25,000,000 frs.
1930	Finland—5% Loan by Banque Centrale des Caisses Rurales de Credit	300,000,000 frs.
1931	Rumania—Caisse Autonome des Monopoles 7½%	575,000,000 frs.
1931	Yugoslavia—Stabilization Loan 7%	675,000,000 frs.
1931	Great Britain—Treasury Bonds 4½%	2,500,000,000 frs.
1931	Poland—6½% Loan by Compagnie Franco-polonaise des Chemins de Fer	400,000,000 frs.

*Refunding loans which constituted no new claim on French credit have been omitted.

Loans to foreign Governments by the French Government

1931	Yugoslavia—Subscription to 3% Treasury Bonds	250,000,000 frs.
1931	Hungary—Subscription to 5¾% Treasury Bonds	354,000,000 frs.
1931	Poland—5% Loan	213,000,000 frs.
1931	Yugoslavia—5% Loan	263,000,000 frs.
1932	Czechoslovakia*	600,000,000 frs.

*Under a convention of January 20, 1932, the French government agreed to guarantee and if necessary to subscribe to bonds of the Czechoslovakian Treasury to the amount of 600,000,000 frs. Cf. *L'Europe Nouvelle*, March 5, 1932, p. 295.

Such countries as Belgium, Poland,[18] Rumania, and Czechoslovakia have also received a proportionately large share of French investments in private foreign enterprises.[19]

The political orientation of French long-term foreign investments has been to some extent a natural development. French investors have hesitated to lend money on long-term to Germany, for instance, because they had little confidence in that country's political stability and good faith. They have pre-

15. As listed by M. Meynial in his compilations of the balance of payments, the issues were as follows:

(in millions of francs)	
1926	200
1927	500
1928	579
1929	1,100
1930	1,400
1931	3,725
TOTAL	7,504

These figures, of course, do not include the French government's loans to foreign governments in 1931, amounting to 1,080 million francs.

16. In 1930 the stamp tax on issues of foreign securities was lowered from 4 to 1 per cent, and the tax on incomes from foreign securities from 25 to 18 per cent. In July of this year the tax on income was again raised to 20 per cent.

17. It might also be mentioned that the 1931 issue of British Treasury Bonds which bulks so large in the list represents only a one-year loan.

18. According to one estimate, French investments in Poland (including governmental debt) amount to about $171,600,000. Cf. *Journal des Economistes*, July 1931, p. 74-9.

19. The *Union Industrielle et Financière*, backed by Schneider-Creuzot, the French armament manufacturers, has invested heavily in various industrial and mining enterprises employed in the manufacture of arms in Czechoslovakia, Poland, and other countries allied to France. Control of the Skoda works in Czechoslovakia, the largest manufacturers of armaments in Central and Eastern Europe, has thus passed into French hands. Cf. Paul Einzig, *Finance and Politics* (New York, Macmillan, 1932), p. 45-6.

Franco-Polish syndicates, in which Schneider-Creuzot is also interested, have been engaged in the construction of the Polish port of Gdynia and of the Upper Silesia-Gdynia railway—two enterprises destined to strengthen Poland's position in the Corridor and Upper Silesia.

ferred to invest their capital in countries which, from this point of view, offer greater security. The chief explanation, however, can be found in the directive influence which the French government has always exercised on long-term foreign investments. Through its power to refuse the listing of foreign securities on the stock exchange, through its influence with the press and the public, and through its own ability to command credit, the government is able to veto loans deemed prejudicial to the country's political interests and to promote those regarded as politically desirable.[20] Other governments have also sought to control the flotation of foreign loans; the French government's policy, however, has probably restricted the volume of such loans to a greater extent than has been done in other countries.

REPATRIATION OF SHORT-TERM CAPITAL

Economic and political restrictions on long-term foreign lending caused by far the largest part of French capital exports to take the form of investments which could easily be liquidated and repatriated in the form of gold whenever conditions at home or abroad warranted such a course. The Bank of France, for example, acquired large holdings of foreign exchange and added greatly to its foreign balances, as did other French banks, while both financial institutions and individual capitalists employed a large part of their liquid funds abroad for the extension of short-term credits. Most of this mobile French capital found investment in the great financial centers—London and New York—where French investors also bought many securities. Some of the short-term credits, however, went to Central Europe, especially Germany.[21] For a time French capital found secure and profitable employment abroad. As economic and political instability rendered investments risky and unprofitable, however, and as domestic demands for funds increased, foreign balances were repatriated, short-term credits were not renewed, and foreign securities bought abroad were sold once more. The steadily swelling volume of gold imports into France since June 1929 may be attributed in large part to this liquidation of foreign investments.[22]

The lack of confidence in political and economic conditions abroad that brought about the repatriation of French capital also caused an increasing volume of foreign capital to seek refuge in France, as well as in other relatively stable countries such as Switzerland, Belgium, and the Netherlands.[23] During 1931 alone foreign capital estimated at 4 to 5 billion francs entered France,[24] thus further increasing the gold influx.

THE ACCUMULATION OF GOLD

The following table indicates the rate at which gold has flowed into the coffers of the Bank of France.

Gold and Foreign Assets of the Bank of France
(in billions of francs)

	Gold Reserves	*Foreign Assets*
June 25, 1928	29	27.2
Dec. 28, 1928	32	32.6
June 28, 1929	36.6	25.8
Dec. 27, 1929	41.6	25.9
June 27, 1930	44	25.7
Dec. 26, 1930	53.6	26.2
Sept. 18, 1931	58.5	27.5
Dec. 24, 1931	68.5	21.5
Nov. 3, 1932	82.9	4.9

The steady accessions to the gold reserves of the Bank of France since the middle of 1929 can be attributed to four sources:

1. The repatriation of capital abroad by French banks other than the Bank of France, and by French capitalists generally;
2. The flight of foreign capital to France;
3. The liquidation of the foreign assets (foreign exchange and foreign balances) of the Bank of France;
4. The liquidation of the foreign exchange holdings of the French government and the French Treasury.[25]

The continued drain of gold to France has taken place chiefly at the expense of Germany, Great Britain and the United States.[26] The ill effects which these countries experienced as a result of loss of gold have been attributed by some observers to the Bank of France[27] and the French government, which

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20. For a description of the traditional loan policy of the French government, cf. Herbert Feis, *Europe—The World's Banker* (New Haven, Yale University Press, 1930), p. 118-59.

21. On March 31, 1931, some months before the Central European financial crisis, French short-term investments in Germany amounted to RM 369,000,000 or $90,000,000. This represented no more than 6.5 per cent of the total short-term foreign indebtedness of German banks. Cf. *Report of the Committee appointed on the recommendation of the London Conference, 1931* (the so-called Wiggin Committee), Annex V. (Basle, 1931). It is probable that a large part of the French short-term credits in Germany had already been repatriated by March 31, 1932. Cf. footnote 26.

22. In computing the balance of payments for 1931, M. Meynial estimates that during 1931 alone French banks and French capitalists repatriated short-term funds amounting to 10 billion francs, and that Frenchmen sold foreign securities to the value of no less than 12 billion francs. Cf. Meynial, "La Balance des Comptes," cited, p. 585.

23. Cf. the annual reports of the Bank of France for 1930 and 1931; also Wm. Oualid, "Les causes de l'afflux de l'or en France," *L'Europe Nouvelle*, April 18, 1931.

24. Meynial, "La Balance des Comptes," cited, p. 585.

25. Apparently the government and the Treasury acquired considerable foreign exchange in past years. Some of this foreign exchange was made available to public and semi-public bodies who needed to meet foreign obligations.

26. The following table shows the net imports of gold into France:

(in billions of francs)

	1929	*1930*	*1931*	*Jan. 1 to Aug. 1 1932*	*Total*
Germany	3.4	1.6	2.3	.5	7.8
England	3.3	6.9	7.8	5.3	23.3
United States	1.2	2.4	8.2	11.3	23.1
Others	.03	.3	—1.7	.2	—1.2
Total	8.0	11.3	16.6	17.4	53.0

have been charged not only with failure to check imports of gold and extend liberal financial aid to countries embarrassed by gold withdrawals, but even with engineering "raids" on the currencies of various countries.[28] The ascertainable facts, however, do not appear to bear out these charges to any great extent.[29]

Official policy with regard to gold imports

From the middle of 1929 until after September 1931, when Great Britain abandoned the gold standard, the Bank of France imported no gold itself, but was merely the passive recipient of gold imported by others. Both to bolster up confidence in economic conditions abroad and to ease the difficulties of countries already contending with gold withdrawals, the Bank maintained its own foreign assets at approximately the same volume, even adding to them somewhat.[30] On the other hand, during 1930 and 1931 the French government and the Treasury together liquidated foreign exchange holdings amounting to more than 10 billion francs,[31] thereby neutralizing to some extent the Bank's action. The Bank of France also strove to discourage gold imports by keeping its discount rates lower than those prevailing on foreign markets; its measures, however, were of no avail against the universal lack of confidence which produced an influx of foreign capital, as well as the repatriation of French capital. Again, in cooperation with the French government, the Bank aided countries embarrassed by a drain on their gold reserves. It participated to the extent of $25,000,000 in a $100,000,000 credit arranged for the German Reichsbank,[32] and shared equally with the Federal Reserve Bank of New York in extending a credit of £50,000,000 to the Bank of England.[33] Later, with a group of French banks, it secured assistance for the British Treasury to the amount of £40,000,000.[34] The French government was also instrumental in extending to, or obtaining financial aid for a number of foreign governments, but not without some discrimination. While Yugoslavia, Rumania, Poland, and Czechoslovakia obtained loans either on the French market or directly from the French government, assistance to certain other countries was made dependent on political concessions. French participation in a loan to Hungary in August 1931 coincided with the resignation of Count Bethlen, an ardent exponent of revision of the peace treaties and an advocate of intimate relations with Italy.[35] Because of the projected Austro-German customs union, France declined in May 1931 to participate in the financial reconstruction of the Austrian *Creditanstalt*, and later refused to permit the issue of an Austrian loan on the Paris market. During the German financial crisis in the summer of 1931 the French government proved unwilling to sanction the proposal for a long-term international loan for the German government.

The "raid" on the dollar

Following England's abandonment of the gold standard in September 1931, the Bank of France sustained a loss of 2,432,000,000 francs[36] due to the consequent depreciation of its sterling assets. Anxious not to expose itself to further risk of loss, the Bank proceeded to the liquidation of its large foreign assets, which on September 18, 1931 amounted to one billion dollars. Dollar balances in New York and dollar exchange made up the largest portion of these assets. The Bank might have left its dollar holdings undisturbed if economic conditions in the United States had been reassuring. Both in the United States and in other countries, however, considerable anxiety was manifested concerning American financial stability. The number of American bank failures was increasing and an enormous increase in hoarding testified to the lack of confidence in American financial institutions. Congress, moreover, appeared dilatory and ineffective in dealing with pressing economic and financial problems. Foreign reports of the economic plight of the United States may also have been somewhat exaggerated. Be that as it may, gold withdrawals assumed a large

27. The Bank of France is a private institution, but under government control. Its governor and two deputy-governors are appointed by the President of France, and three of the nine members of the Board of Regents are officials of the government Treasury. The Bank is the official banker of the French government. Cf. Thos. R. Wilson, "Banking System and Practices in France," U. S. Department of Commerce, *Trade Information Bulletin No. 470*, January 1931.

28. Cf. particularly two books by Paul Einzig: *Finance and Politics*, cited, and *Behind the Scenes of International Finance* (London, Macmillan, 1931).

29. The paucity of publicity concerning the movement of short-term capital is an obstacle to a complete and entirely conclusive examination of these charges.

30. Mr. Einzig asserts that the Bank, while not decreasing the total volume of its foreign assets, did reduce its holdings of sterling assets from 140 million to 62 million pounds in the period from June 1928 to September 1931. Cf. *Finance and Politics*, cited, p. 14; also *Behind the Scenes of International Finance*, cited, p. 50-1.

31. Cf. Meynial, "Balances des Comptes," cited, p. 520, and *ibid.*, May-June 1932, p. 579. The sales of foreign exchange were as follows:

(*in millions of francs*)

1930	by the French government	4,408
1931	by the French government	3,250
1931	by the French Treasury	3,100

The French government sold part of its foreign exchange in 1931 after England abandoned the gold standard, for M. Meynial states that it suffered a loss on sterling exchange.

32. June 25, 1931.

33. August 1, 1931.

34. August 29, 1932.

35. Cf. G. E. R. Gedye, "France Astride Middle-Europe," *Contemporary Review*, October 1931, p. 446-54.

36. This is the estimate of the Bank at the end of 1931.

volume at the end of September 1931. This gold moved chiefly to France, but it also sought security in Belgium, Switzerland, and the Netherlands.

The Decline of American Gold Reserves in relation to American Gold Exports*
(in thousands of dollars)

	Gold Reserves	*Total Net Gold Exports*	*To France*	*To Belgium, Switzerland, and the Netherlands*
1931				
Sept.	4,364,000	20,561**	24,087	4,519
Oct.	3,905,000	337,685	324,500	60,199
Nov.	4,031,000	89,436**	10	966
Dec.	4,051,000	56,858**	15,150	16,988
1932				
Jan.	4,009,000	72,950	83,783	20,569
Feb.	3,947,000	90,567	98,203	26,785
March	3,986,000	24,671	37,532	6,347
April	3,956,000	30,239	24,527	19,491
May	3,717,000	195,514	63,216	131,957
June	3,466,000	206,047	111,411	112,021
July	3,520,000	7,140	21,513	225
Aug.	3,639,000	4,351**	18,050	1,021**
Total		793,607†	821,982	399,046

*Figures taken from *Federal Reserve Bulletin,* September 1932, p. 585, 586.
**Net imports instead of exports.
†This total is considerably less than the total of the exports to France, Belgium, Switzerland and the Netherlands because the United States imported a large quantity of gold, chiefly from Latin-American countries and Japan.

The Bank of France began to repatriate its dollar balances in October. American banking officials apparently saw that the execution of this policy would have a disturbing psychological effect. Toward the end of October representatives of the Bank of France are said to have accepted an understanding which guarded against immediate liquidation of the Bank's dollar assets.[37] Indeed, little gold left the United States in the last two months of 1931, but with the beginning of 1932 gold exports again assumed large proportions and continued uninterrupted until the end of July. French gold withdrawals appear to have been almost entirely due to the liquidation of the foreign assets of the Bank of France.[38] In the United States these withdrawals created much popular alarm and led to charges that France was endeavoring to drive this country off the gold standard. Actually there seems to have been little basis for either the alarm or the accusation. The United States possessed gold reserves adequate to meet all claims without any great difficulty.[39] France, moreover, can hardly have entertained the desire to force the United States off the gold standard for, having the second largest gold reserves in the world, France is keenly interested in the maintenance and extension of the existing monetary system. The motive of the Bank of France in liquidating its foreign assets appears to have been the desire to secure itself definitely against all further possible loss.

THE REDISTRIBUTION OF GOLD

At present foreign capital is no longer moving to France and French bank balances abroad appear to have been reduced to an indispensable minimum. Since the limit of France's power to absorb gold seems to have been reached, international apprehensions concerning the immediate effect of French gold withdrawals have been relieved.

From the international point of view, however, the question remains whether world recovery can occur until a substantial redistribution of the gold now held in France takes place, and whether the French government will adopt a policy facilitating such redistribution. The repatriation of foreign capital which has sought refuge in France may be expected to take place only with the return of confidence in political and economic conditions, of which there is as yet little indication.

The French government, however, might bring about the export of gold by stimulating the export of French capital. With its present resources France is the only European country which is in a position to initiate a general program for the construction of public works in undeveloped areas, as a means of alleviating unemployment and checking the depression.[40] French capital could also be mobilized for the extension of loans to

37. Cf. Einzig, *Finance and Politics*, cited, p. 20-21; also *The Economist* (London), November 7, 1931, p. 857.

38. Cf. the corresponding decrease in the foreign assets of the Bank of France in the table on p. 237.

39. Cf. B. M. Anderson, "Our gold standard has not been in danger for thirty-six years," *The Chase Economic Bulletin*, November 10, 1932. Mr. Anderson shows that the "free gold" in the Federal Reserve system, i.e., the gold in excess of legal requirements, was at all times sufficient to maintain the United States on the gold standard.

40. W. Woytinsky, "International Measures to Create Employment: A Remedy for the Depression," *International Labour Review*, January, 1932. On November 16 the formation of a European consortium for the construction of public works was announced. *New York Times*, November 17, 1932.

countries desiring to return to the gold standard. The question remains whether France will abandon the nationalist conception of foreign investments it has held in the past and undertake a far-sighted policy of international investments.

Finally, future exports of gold from France must depend largely on the country's balance of trade, which is at present unfavorable. This balance is to a certain extent controlled by French tariff policy, which is discussed in the following section.

FRENCH COMMERCIAL POLICY[41]

France's commercial policy has aroused general interest because of its effect not only on French gold exports, but on the whole international movement toward tariff reduction. If France, a traditionally protectionist country, clings to a nationalist trade policy, this movement may be defeated. If France, however, is willing to liberalize its trade policy, it may encourage a similar tendency throughout Europe.

France has a double tariff system consisting of a minimum tariff—representing the amount of protection deemed necessary to industry and agriculture—which may be applied to foreign countries as a result of tariff negotiations; and a general tariff, embodying maximum rates applicable to countries with which France has no commercial treaties.

Since 1919 French commercial policy has passed through three phases. Immediately after the war France abandoned the unconditional most-favored-nation policy in favor of reciprocity, or very limited most-favored-nation treatment. Moreover, by raising its general tariff in 1921 and by confining most of the tariff reductions granted in commercial treaties to rates intermediate between the general and minimum tariffs, France reduced the tariff concessions which foreign countries might obtain by negotiation.

A more liberal policy was inaugurated in 1927 when France, apparently realizing that its policy of limited tariff concessions invited reprisals, returned to the unconditional most-favored-nation principle and once more granted countries with which it concluded commercial treaties the benefit of the minimum tariff rates for most of their products. In the new commercial treaties negotiated along these lines in 1927 and 1928, France also bound itself not to increase the rates on about 75 per cent of the items in its tariff schedule. Duties on most agricultural products, however, were exempted from this limitation.

With the beginning of the world depression in 1929, France gradually adopted another and more restrictive policy, designed to reinforce protection of the home market. In the first place, the government substantially increased the duties on a large number of agricultural products, in many cases more than 100 per cent.[42] Although it could not take similar action with regard to industrial products, the rates of which were fixed by commercial treaties, the government, by virtue of a law enacted on August 1, 1931, was enabled to impose surtaxes up to 15 per cent on goods coming from countries with depreciated currencies. On April 1, 1932, moreover, the French parliament increased the import turnover tax from 2 to 4 per cent on semi-finished products, and to 6 per cent on finished products. Finally, the government adopted a system of import quotas under which it definitely fixes the quantity of products which may be imported during a given period.[43]

THE QUOTA SYSTEM

In the twelve months ending July 1932, the government enacted 63 decrees[44] imposing quotas on almost one-fifth of the items listed in the tariff schedules.[45] Meats, livestock, dairy products, fresh fruits, sugar, wine, wood and lumber are among the chief agricultural commodities affected by quotas; among industrial products affected are radios, electrical equipment, glass, various kinds of steel products and machinery, and implements.

The quota has usually been fixed by the government itself. Occasionally, however, representatives of French manufacturers have been allowed to negotiate quotas with foreign exporters and the agreements thus made have been merely sanctioned by the government.[46] In the case of every product the quota represents a substantial reduction

41. For an exhaustive treatment of French tariffs and commercial policy, cf. Edgard Allix, *Les Droits de Douanes* (Paris, Rousseau, 1932, 2 vols.).

42. Cf. Jean Proix, "La politique douanière de la France 1927-1931," *Publications du Comité d'Action douanière et économique*, No. XVII, 1931.

43. Several other countries, such as Spain, the Netherlands, Italy and recently Germany, have also limited imports by quotas. Cf. H. Chalmers, "Current Trends in Foreign Tariffs and Commercial Policy—Review for 1931," U. S. Department of Commerce, *Trade Information Bulletin*, No. 790.

44. These decrees have been based on Article 17 of the Codified Customs Laws.

45. Cf. Jean Proix, "Le Congrès du commerce des produits contingentés," *Revue Politique et Parlementaire*, August 1932, p. 268.

46. The largest number of these quota agreements have been made with German exporters, through the medium of the Franco-German Committee on Economic Rapprochement formed after the visit of MM. Laval and Briand to Berlin in September 1931. In the first three months of 1932 forty-seven such agreements were concluded with German producers. Cf. *L'Europe Nouvelle*, April 16, 1932.

of the quantity imported prior to the imposition of the quota. Each country's share in the total quota has been calculated according to its proportionate share in French imports of the given product during the year or years selected for determination of the quota. To administer this whole quota system, it has been necessary to establish a complicated machinery for the licensing of imports.

The French government deemed it necessary to introduce this drastic method of restricting imports in order to safeguard the country's relative economic stability against excessive imports resulting from abnormal circumstances, such as rapidly declining world prices, depreciated currencies, and dumping. The quota system was not only the most effective means of adjusting imports to domestic requirements, but in many cases the only available means, since treaty commitments prevented tariff increases on many products.[47] Numerous objections, however, have been urged against this form of trade control. The quota system, it is argued, subjects foreign trade to the arbitrary control of the government; the fact that quotas may be quickly changed deprives international trade of stability and precludes orderly planning for the future. Moreover, since quotas are based on past imports, they can take but little account of probable changes in future competitive conditions. The system not only hampers industrial development, but leads to international recrimination as well; several countries have resorted to retaliatory measures.[48]

FRANCO-AMERICAN COMMERCIAL RELATIONS

Beginning with January 1932, an increasing number of quotas seriously affected American exports to France, and led to vigorous protest from American exporters, particularly the American Chamber of Commerce in Paris. Citing the fact that, in contrast to the Germans, American exporters had not once been consulted by the French government in determining quotas, the American Chamber of Commerce alleged that the quota system had been applied in a discriminatory manner and requested the American government to intervene. In April the State Department opened negotiations with the Quai d'Orsay concerning this question. The United States found it difficult to prove any charge of discrimination on the basis of known facts. Nevertheless, on May 31 it obtained a provisional agreement from the French government by which it secured most-favored-nation treatment for American exporters with regard to the determination and application of quotas.[49]

This agreement, however, did not end negotiations, for the quota question raised the whole problem of Franco-American commercial relations, which have long been unsatisfactory due to the absence of a complete commercial treaty between the two countries. American exports enter France under the régime of a *modus vivendi* concluded in 1927, which does not entitle American goods to most-favored-nation treatment and gives most of them only the benefit of varying intermediate rates of the French tariff. The American government has therefore inaugurated negotiations with France for a commercial treaty which will guarantee American goods complete equality of treatment. These negotiations promise to be extremely difficult and prolonged, as France is not willing to grant the United States the benefit of every reciprocal tariff concession it makes to other countries, without receiving some appreciable counterpart.[50] Hitherto American adherence to an autonomous tariff, the rates of which are not open to negotiation, has proved an obstacle to the conclusion of a Franco-American commercial treaty. The election of Franklin D. Roosevelt on a platform pledged to reciprocity negotiations, however, may facilitate a settlement of Franco-American tariff difficulties.

Apparently realizing the international difficulties caused by the quota system M. Durand, Minister of Commerce in the Herriot government, recently announced that quotas unilaterally imposed by the French government would soon be discarded;[51] but quotas resulting from agreements concluded by international producers may be retained, for the government believes that they may place production and international exchange on a stable basis. The quotas abandoned, however, will be replaced by higher tariff rates. In order to recover its full liberty to raise the tariff, the government will proceed to the revision or denunciation of the commercial treaties of 1927 and 1928, which stabilized many of the French tariff rates, and will simultaneously negotiate a new ser-

47. For a defense of the quota system, cf. the speech of M. Rollin, the Minister of Commerce, before the Paris Chamber of Commerce on January 6, 1932, in *La Journée Industrielle*, January 7, 1932; also Michel Auge-Laribe, "Observations sur le système des contingents d'importation," *L'Europe Nouvelle*, April 16, 1932, p. 500-02.

48. Among others, Italy, Spain, Switzerland, Belgium and Portugal.

49. For the text of this agreement, cf. *New York Times*, June 8, 1932, and *Commerce Reports*, June 13, 1932. The agreement also provides for improvements in the administration of the quotas, and stipulated certain minimum quotas for American imports into France.

50. Cf. "Les Negotiations commerciales entre la France et les Etats Unis," *L'Europe Nouvelle*, September 10, 1932, p. 1069-72.

51. Speech of M. Durand before the *Federation des Industrielles et Commerçants françaises* on October 28, 1932, *L'Ere Nouvelle*, October 29, 1932.

ies of commercial agreements based on reciprocity and excluding the most-favored-nation clause.

THE NEW RECIPROCITY POLICY

Whether this new French commercial policy will result in restricting or expanding international trade appears to depend entirely on the spirit in which the government will apply it. For example, on regaining full control over the tariff, the government might either proceed to large-scale increases in tariff rates, or induce other nations to consent to a reciprocal lowering of tariff barriers. Similarly, the abandonment of the unconditional most-favored-nation principle and the adoption of a policy of reciprocity might tend either to facilitate or to hamper trade. In August 1931, a League of Nations committee of economic experts declared that the most-favored-nation clause should be discarded only when this is necessary to facilitate regional trade agreements, and that such agreements, in order to merit exception from the scope of the clause, should have the character of genuine rapprochement resulting in enlarged markets, and not one of exclusive preferences accompanied by an increase in protectionism toward outside countries.[52] General abandonment of the most-favored-nation clause, without any relation to a well-conceived plan of regional economic rapprochement, might otherwise lead to increased restriction and, above all, to discrimination between the trade of different nations and, consequently, to tariff wars. The issue, therefore, is whether French policy will really be directed toward the achievement of greater freedom of trade by regional agreements.

The commercial policy of France will receive its first test in the negotiation for revision of the Franco-German commercial treaty of 1927, which opened in Berlin on November 21, 1932.[53] These negotiations may prove crucial, as it is recognized that closer economic relations between France and Germany are essential in paving the way for political rapprochement—a conviction which led to the formation of a Franco-German Committee for Economic Rapprochement in September 1931. At present the French government wishes to remedy its unfavorable balance of trade with Germany. In this connection it will have to decide whether it is prepared to propose a mutual increase in freedom of trade, or whether it will reinforce its own restrictions to redress the disequilibrium in Franco-German trade. The problem of continued adhesion to the unconditional most-favored-nation clause will also arise. The abandonment of the clause will be generally sanctioned only if the new regulation of Franco-German trade is productive of genuine economic rapprochement.

APPENDIX

Resolutions adopted by the French Parliament at the time of ratifying the American and British debt-funding agreements.

The resolution adopted by the Chamber of Deputies on July 20, 1929:

"The Chamber, as it faces the problem of ratifying the agreements of London and Washington [the debt-funding agreements] and as the government is about to take part in the work of the international conference [the Hague Reparations Conference of 1929];

"Gives renewed expression to its feeling of friendship for the nations which fought on the side of France in the World War;

"And considering that France, if it is not to disturb its national economy, will only be able to find the means necessary for the execution of the agreements of April 29 and July 12, 1926, provided Germany regularly discharges its obligations;

"Declares that the burdens imposed upon the country by the said agreements must be covered exclusively by the sums which Germany will have to pay France over and above those destined for reparation."

The resolution adopted by the Senate on July 26, 1929:

"The Senate declares:

"1. That international conventions place Germany under obligation to make payments which cover part of the arrears due on reparation and at the same time assure the service of the annuities provided for in the agreements of Washington and London;

"2. That in the event that Germany should suspend or reduce considerably its payments, the French government would have the right to demand the postponement for three years of all or part of its payments by virtue of the final paragraph of Article II of the Agreement of Washington, and of Article IV of the Agreement of London, complemented as far as the latter agreement is concerned by the letters of MM. Caillaux and Churchill of July 12, 1926.

"The Senate relies, in the negotiations which would then be opened, on the friendship and the loyalty of the United States and Great Britain. The war debts have been contracted with a view to assuring the victory of the noble causes of the Allies for which several million men have fought and died. Their settlement should not aggravate the burdens of France in case of a default by Germany nor restrict its legislative freedom as a sovereign nation."

52. League of Nations, *Report of the Sub-Committee of Economic Experts to the Commission of Enquiry for European Union*, August 29, 1931.

53. *Frankfurter Zeitung*, November 20, 1932.